



Petroleum Market Report

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Energy Information Administration
Office of Oil & Gas

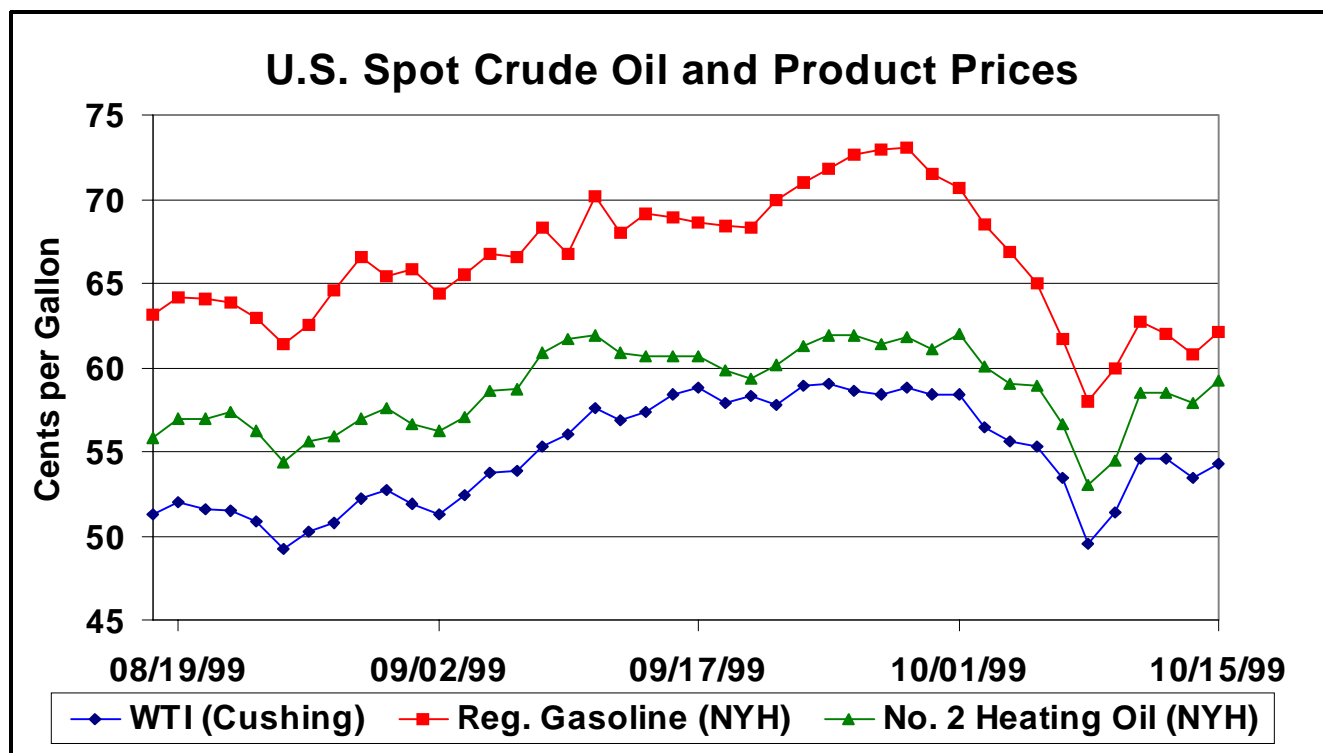
MARKET SUMMARY

U.S. petroleum spot and futures prices posted a limited recovery last week, following the previous week's sharp declines to the lowest levels in six weeks or more. Prices moved solidly upward Monday and Tuesday, as buyers took advantage of bargain prices, then stalled after a limited response to API's weekly supply report. (EIA's report was delayed to Thursday due to Monday's holiday.) The week ended with prices wavering at the mid-\$22-per-barrel (WTI) level, suggesting a possible equilibrium level given current fundamentals.

Crude oil - price movements continue to be dominated by questions about the future of voluntary production restraint, currently being exhibited by OPEC, Mexico, and Norway, among others. A scheduled November meeting in Riyadh between Saudi Arabia, Venezuela, and Mexico is still a source of concern to traders, although participants claim that agreements in place through March 2000 will not be modified. Some analysts believe that further stock declines, like the larger-than-expected weekly U.S. inventory draw through October 8, will force producers to reconsider output levels during the winter.

Gasoline - kept pace with crude oil price movements during the week, maintaining the much lower crack spreads established by the previous week's belated post-season decline. Stocks remain on the high side of recent-year seasonal averages, although slightly below year-ago levels. Problems at two Gulf Coast refineries and a fire on the Plantation Pipeline provided additional price support during the week.

Distillate - prices gained somewhat in comparison to crude oil, aided by pipeline and refinery problems, and by forecasts of colder weather for the next week and the winter in general. A slight stockdraw for the week ending October 8 left inventories near the middle of the seasonal range.



CHRONOLOGY OF RECENT MARKET EVENTS

- 10/15 - rising** - crude and product prices posted gains in pre-weekend shortcovering, aided by extension of a Russian export ban and forecasts of coming colder weather. A number of refinery problems and a pipeline fire this week have helped lift product prices.
- 10/14 - falling** - prices moved lower across the board in profit-taking, after upward momentum stalled following early-week gains. The weekly EIA supply report, delayed due to Monday's holiday, closely paralleled the API data, providing no further support.
- 10/13 - mixed** - futures and most spot prices rose for a third straight day, lifted by a larger-than-expected crude oil stockdraw in API's weekly supply report. (EIA's report was delayed a day due to Monday's Federal holiday.) Problems at Chevron's Mississippi refinery and concern over Tropical Storm Irene had relatively small impacts on markets.
- 10/12 - rising** - a second day of "bargain-hunting" from recent lows struck last week pulled petroleum spot and futures prices higher. Despite a lack of market-moving news, prices have rebounded to reverse a significant portion of the previous week's losses, seemingly seeking an equilibrium level.
- 10/11 - rising** - prices began a new week with an upswing, posting a small turnaround from the sharp and steady declines throughout the previous week. Markets were relatively quiet, with government agencies and many businesses observing the Columbus Day holiday.
- 10/8 - falling** - all prices fell sharply, completing a week of uninterrupted declines, as spot and NYMEX WTI dropped below \$21 per barrel for the first time since August. Growing doubts about OPEC production discipline over the coming months remained the principal source of market concern, though a comment by President Clinton regarding a possible SPR sale added further pressure.
- 10/7 - falling** - the ongoing price decline gathered momentum, taking WTI spot and futures below \$22.50 per barrel, amid increasing concerns about reported cracks in OPEC compliance with production cuts in September. Mexican and Venezuelan officials offered assurances that their November joint meeting with Saudi Arabia would not revisit cuts already agreed upon through March 2000.
- 10/6 - falling** - spot and futures prices continued downward, led by gasoline, largely in reaction to the weekly API and EIA supply reports. Crude oil fell only slightly, as EIA reported a small stockdraw, contradicting the unexpected build reported earlier by API.
- 10/5 - falling** - prices dropped for a second day, though less than Monday, as late buying partially offset early losses. The decline was attributed to continuation of Monday's selloff, with added pressure from reports that Saudi Arabian, Venezuelan, and Mexican officials will meet in November.
- 10/4 - falling** - crude oil and product prices fell sharply across the board, attributed to profit-taking combined with concerns about possible global production increases. Indications that Norway might increase output in 2000 concerned traders, along with a U.N. Security Council vote to allow Iraq to sell an additional \$3 billion worth of crude oil to make up for past shortfalls.